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To: Mr. R.J. Gurley, ACE/ USAID
From: Barbara Ende

Ref: ASEAN Sourcing Survey

Introduction:

The ACE PROJECT based in Bangkok, Thailand has, as one of its objectives, the development of intra-regional trade in the apparel/textile sectors in the region. The objectives of the survey were as follows:

- Determine the current attitudes/business being done in the region by international sourcing executives and their knowledge level regarding supply chain (i.e. fabric, trim, factory, etc) regionally
- Garner a sense of where sourcing of apparel is taking place extra-regionally and what specific criteria impact factory/country/regional choice
- Obtain comments from these executives as to the benefits and challenges of the ASEAN region
- Identify the importance of Free Trade Agreements on factory choice
- Obtain feedback on what marketing tools currently ,and might possibly in future, impact their sourcing decisions allowing the ACE office to move forward on finalizing a marketing strategy for the region

Preparation:

The Sycamore Marketing Group Inc. (SMG) developed a sourcing questionnaire based on the requirements of ACE's objectives and with the input of Ms. Jane O'Dell and Mr. Peter Minor of NATHAN ASSOCIATES.

The final version of the questionnaire was done in Excel format allowing for respondents to download, complete answers, save and email back to our offices.

Participants:

Unfortunately, this project was launched just as the economic recession hit the global market resulting in the loss of jobs within the apparel industry, changes of top-level executives but mostly in the reticence of major global retailers and brands to release sourcing strategy information.

The SMG invited top-level management and sourcing executives from approximately 50 firms to complete the survey. Over the course of 3 months, 13 firms agreed to participate either completing the entire survey or portions of the survey.

The firms contacted included but are not limited to:

JC Penney	Ann Taylor	Polo/Ralph Lauren	Talbot's	Chico's
H&M	Macy's HK	Columbia Sptwr	Eddie Bauer	J. Crew
Mast	Target	Carol Hochman	Mango (Spain)	Auchan -FR
M& S (UK)	PacSun	The Gap	Gerard Darel (France)	
Recats (FR)	Cheong (HK)	St. John	A & F	IQ Apparel
Oxford/Lanier	VF Corp	PVH	Guess Inc	Dillard's
Orchard (HK)	AVON	Disney Corp	American Eagle	

Those companies highlighted in green responded to the survey.

Methodology:

Because some of the participants only completed a portion of the survey, we have decided to give "averages" based on the number of firms responding to each section of the survey. This gives a more equitable result and reflects a truer level of response.

Overview of Participants:

The companies participating included:

- U.S. based private label development firms for apparel, uniforms and corporate wear
- U.S. based brands and national retailers (i.e. Ann Taylor, Oxford/Lanier, etc)
- Major U.S. brands and retailers such as Guess Inc, Avon, J.C. Penney, etc. with global presence (i.e. having major sourcing subsidiaries in Hong Kong, India, Singapore, etc…
- Hong Kong based sourcing agents and/or private label development firms

- European global retailer (Mango)

In all cases, the survey was completed by a company representative holding one of the following titles:

- V.P. Global Procurement, Sourcing and/or Production
- E.V.P. of Global Sourcing
- President
- COO

The participating group of companies' apparel purchasing power in value and volume annually ranges from a low of $10 million/ 4 million pieces to a high of $2 billion /700 million pieces but, surprisingly, their sourcing criteria are fairly similar.

Apparel Categories Sourced:

This group of survey respondents' firms cover every type of apparel product for men, women and children including specialty categories such as sleepwear, lingerie, uniforms and outerwear. The most sourced categories cited were for both knitted and woven bottoms and tops followed by denim.

Sourcing Networks:

Based on an average of the responses, the overall sourcing network in place by our respondents is as follows:

Direct to Factory:	61.25%
Via a corporate intl subsidiary	16.36%
Via a regional agent	9.63%
Via Private Label Development firms	6.80%

This clearly indicates that the major sourcing decisions still remain with the hands of the corporate sourcing employees in the headquarters and their solely owned foreign subsidiaries.

Number of Countries in Supply Chain:

Our participants indicated that their firms are sourcing finished apparel in as few as 2 countries and as many as 30 whereas fabric is being sourced from as few as 3 countries and as many as 10. The averages are as follows:

Apparel:	11 countries on average
Fabric:	3.5 countries on average

Only four of our participants responded that they would be increasing the number of supplier countries in 2009 and, of those, almost all indicated that they would be looking to add one or two countries only.

These figures do reflect the general consensus that most major apparel brands/retailers are reducing the number of supplier countries. As little as 3 years ago, the average number of countries supply apparel would have been more at the 15-18 mark.

Current Major Suppliers of finished apparel: (average based on responses)

China	45.6%	
Sub India Cont	20.63%	(India, Bangladesh, Pakistan combined)
Americas	17.0%	(Central, South, U.S., etc)
ASEAN	12.5%	
Middle East	1.8%	
Europe	.86%	
Sub Sahara	.22%	

Impact of Free Trade Agreements on Country/Regional sourcing choice:

Interestingly, the survey responses did not confirm a strong correlation between country/regional choice and existing FTAs except for those agreements with regions in close proximity to the U.S. end market.

NAFTA	5 participants currently use this agreement and one additional firm is considering the region based on the FTA
CAFTA-DR	Same result as NAFTA
Andean/ Peru	Only two firms currently benefit from the Andean and /or Peru FTA while one additional firm is considering the agreement
AGOA	No participants are currently using the FTA but one is investigating
Morocco:	One participant is benefiting from this agreement but two are considering
Hope/Haiti:	One firm is using this FTA and two others are considering the Hope FTA

What are the current major criteria for regional/country selection?

Based on the averaging of the responses of our participants:

Social Compliance	1= most important
Political stability/security:	2
Design services:	3
Infra-structure/logistics	4
Vertical Factories	5

Price/Production costs	6
Access to regional fabrics:	8

This, again, reflects what we have been hearing over the past 18 months regarding the growing importance of social compliance, political stability and design (additional) services becoming part of the factory's responsibilities. The interesting result is that access to local raw materials was the least important criteria for factory selection. The following information on fabric sourcing may reflect why.

When producing in the following countries, where is fabric sourced?

CHINA	China, Taiwan and Korea
AMERICAS	U.S., intra-regionally, China, Korea, Mexico
ASEAN	China, Korea, Pakistan, minimally intra-regionally, Taiwan, India
INDIA	India, China
AGOA	Taiwan, China
Middle East	Taiwan, China, intra-regionally, Italy
Europe	Italy, France

It is apparent that fabric/raw material sourcing is currently dominated by China, Korea and Taiwan. This may be for pricing / range of product reasons or, quite simply, because of a lack of knowledge of availability in select regions such as ASEAN.

Who nominates the fabric?

Based on the averaging of responses:

In-house corporate:	42.25%
Factory:	37.25%
Agent	2.30%
Private Label firm:	0.00%

Who within the firm is responsible for fabric selection?

Product Development / R&D team:	1st – most important
Sourcing department	2
Designer	3 – least input

How important are the following for fabric choice/sourcing?

Fabric samples available:	1 – most important
Technical finishes and fibres	2

Minimum orders available	3
Vertical factory supplied	4
100% cotton available	5
Eco fabrics, prints	6 – tied for least important

How do you refer to the region?

ASEAN	4 respondents use this reference
S.E. ASIA	6 respondents use this reference

Several respondents use both references for the region.

What are you currently sourcing in the region?

The survey clearly indicated that trims are only sourced in a very limited manner in the region. In fact, only one respondent indicated use of trims supplied by the Philippines and Malaysia.
As regards sourcing of fabric and the production of finished apparel, the following percentages represent averages from the responding firms:

	Fabric Sourced	Apparel Produced
Vietnam	1.2%	5.0%
Cambodia	0.2%	2.0%
Thailand	0.0%	0.1%
Indonesia	0.4%	8.4%
Malaysia	1.2%	1.4%
Singapore	0.0%	0.0%
Philippines	5.0%	2.1%

Why are these firms not sourcing in the ASEAN region?

When asked to list in ranking order from 1 (least important) to 5 (most important), the reasons for not sourcing in the region were as follows when taken as averages:

Fabric availability	5
Design capability	5
Lead times	3
Social Compliance	3
Full package factories	3
Price	1
Regional infra-structure	1

When asked more specifically for the benefits and challenges of the region, the responses became far more specific and are listed below:

Benefits of ASEAN region sourcing (number of responses in parentheses):

- Experienced and well trained workforce (2)
- Good lead times (one)
- Availability of fabric and trim regionally (one)
- Availability of vertical factories(one)
- Low cost production (3)
- Good alternative to China (1)
- Quality production (1)
- Willingness to compete (1)

Challenges of Region:

- Lack of regional fabric (4)
- Political stability (4)
- Poor infra-structure and logistics (3)
- Prices (one)
- High labour costs (1)
- Currency fluctuation (1)
- Corruption (1)

Remarks:

The responses indicate that the availability of local fabrics and trims is not a top priority when analysed in our respondents' global sourcing decision answers but becomes more of a deciding factor when considering the ASEAN region. In addition, it becomes clear that the participants are not well informed as to the availability of intra-regional fabrics and trims within the region.

Most importantly, our participants view the region as politically unstable, corrupt and with poor infra-structure. If we refer back to their top criteria for choosing sourcing regions, we will see that these are amongst the top necessary criteria for regional choice.

Marketing responses - Which publications/news websites do you read?

In order of importance based on response:

Women's Wear Daily/ DNR (combined recently by the publisher)
Fibre2Fashion.com
Emergingtextiles.com
Just-Style.com, Apparel News Group and Apparel Magazine = same ranking

Other sources of industry information:

In order of importance based on response:

Factory sourcing trips/visits
Trade Associations
Regional buying offices
Conferences
In-house international departments

Which of the following trade shows do you attend or plan to visit in future?

Sourcing at Magic	Nine attend	Additional one planning to attend
Material World	Three attend	Two might attend
L.A. Textile Week	None attend	Two may attend
Source ASEAN	Four would attend in NY if they are in the U.S. at the time	
Premiere Vision	Seven attend	
Hong Kong	Six attend	

Would you attend a sourcing summit/conference combined with a sourcing trade show in an ASEAN central city such as Singapore or Bangkok?

NO	Six
Maybe	Two
Yes	Two

Would you be willing to organize a vendor/supplier day at your headquarters for a group of ASEAN suppliers?

NO	Four
Maybe	One
YES	Four

Conclusions:

It becomes very clear in reviewing this small sampling from a broad cross-section of the international industry, which the region must actively commit to the following strategies in the short-term:

- Prepare and provide a Directory of fabric, trim and services available intra-regionally to be supplied to all factories, buying offices and sourcing departments of major brands/retailers worldwide via an internet site
- Create a Trade Association website that provides either weekly, monthly, etc newsletters to the industry. Trade Associations are the second most important non-publication source of information for these executives after factory sourcing trips.
- A marketing program to re-brand the region as secure for travelers and production with top level logistics and services must be put in place alongside the Directory in order to create an image of a leader in the apparel field

A marketing program should be put in place quickly to include but be limited to:

- An AFTEX/ASEAN pavilion at the SOURCING AT MAGIC trade show for August 09 to avail the region of the VIP B2B meeting program currently in place for this event. I would strongly suggest that the group refer to Ms. Calia of Singapore Apparel regarding her group's positive results at the show in general but especially from the VIP matchmaking program.

- An advertising campaign should be considered for Women's Wear Daily (especially the Sourcing Horizons supplement) to appear for the 2 months prior to the Sourcing at Magic event in August.

- An intensive email and telephone campaign to promote the region prior to the show should be created and conducted by a local consultant

- Premiere Vision in France should be given the same consideration regarding a pavilion for both fabrics and for factory/suppliers (FATEX , Oct 20-22, 2009). I recently had a meeting with that show's organizer regarding promotions, group participations, etc.

After the initial "soft launch" of the group's capabilities, they should then consider developing a series of meetings at the headquarters of U.S. and Hong Kong firms as this seems to be an opportunity that interests more than 50% of the respondents.

- ASEAN event in the U.S. received a lukewarm reception with those based in the U.S. saying they might attend such an event if they were in the country at the time.

- ASEAN event in region – was not well received as the respondents would prefer to attend such an event either in the U.S. (as a stand alone event or at MAGIC) or in Hong Kong. The ASEAN regional event should, as we had originally discussed, be an intra-regional event to make the operators in the region aware of all resources.